

CPP ANNUAL USE OF CAPITAL SURVEY - 2011



NAME OF INSTITUTION

(Include Holding Company Where Applicable)

Coastal Banking Company/CBC National Bank

Point of Contact:	Michael G. Sanchez	RSSD: (For Bank Holding Companies)	2855905
UST Sequence Number:	90	Docket Number: (For Thrift Holding Companies)	
CPP/CDCI Funds Received:	9,959,000	FDIC Certificate Number: (For Depository Institutions)	35309
CPP/CDCI Funds Repaid to Date:		Credit Union Charter Number: (For Credit Unions)	
Date Funded (first funding):	December 05, 2008	City:	Fernandina Beach
Date Repaid ¹ :	N/A	State:	Florida

¹If repayment was incremental, please enter the most recent repayment date.

American taxpayers are quite interested in knowing how banks have used the money that Treasury has invested under the Capital Purchase Program (CPP) and Community Development Capital Initiative (CDCI). To answer that question, Treasury is seeking responses that describe generally how the CPP/CDCI investment has affected the operation of your business. We understand that once received, the cash associated with TARP funding is indistinguishable from other cash sources, unless the funds were segregated, and therefore it may not be feasible to identify precisely how the CPP/CDCI investment was deployed or how many CPP/CDCI dollars were allocated to each use. Nevertheless, we ask you to provide as much information as you can about how you have used the capital Treasury has provided, and how your uses of that capital have changed over time. Treasury will be pairing this survey with a summary of certain balance sheet and other financial data from your institution's regulatory filings, so to the extent you find it helpful to do so, please feel free to refer to your institution's quarterly call reports to illustrate your answers. This is your opportunity to speak to the taxpayers in your own words, which will be posted on our website.

What specific ways did your institution utilize CPP/CDCI capital? Check all that apply and elaborate as appropriate, especially if the uses have shifted over time. Your responses should reflect actions taken over the past year (or for the portion of the year in which CPP/CDCI funds were outstanding).

☒ **Increase lending or reduce lending less than otherwise would have occurred.**

Residential mortgage lending continued to expand. The balance sheet expanded year over year by \$50 million, or approximately 12%, to accommodate mortgage loans held for sale

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☒ **To the extent the funds supported increased lending, please describe the major type of loans, if possible (residential mortgage loans, commercial mortgage loans, small business loans, etc.).**

On average tangible assets of approximately \$416 million, the Bank originated 4,881 residential mortgage loans in the amount of \$1,083,612,000. The Bank originated 31 SBA loans in the amount of \$31,221,000.

☐ **Increase securities purchased (ABS, MBS, etc.).**

☐ **Make other investments.**

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☒ **Increase reserves for non-performing assets.**

Provision expense to the Allocation for Loan and Lease Losses (ALLL) was \$2,865,000 in 2011.

☐ **Reduce borrowings.**

☒ **Increase charge-offs.**

In addition to the \$2,865,000 ALLL expense referred to above, the Bank incurred collection costs in the amount of \$585,000 and OREO related costs, including impairments and loss on sale of foreclosed properties, in the amount of \$4,103,000. Total asset quality costs for 2011 were \$7,553,000.

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☐ Purchase another financial institution or purchase assets from another financial institution.

☒ Held as non-leveraged increase to total capital.

The holding company, Coastal Banking Company, retained a portion of CPP proceeds on its balance sheet to provide future support to CBC National Bank, if needed.

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What actions were you able to avoid because of the capital infusion of CPP/CDCI funds?

Management tracks pro forma capital excluding the CPP investment. At December 31, 2011 pro forma Tier 1 capital was 6.93% and Total Risk Based capital was 13.73%, compared to actual Tier 1 capital of 8.39% and Total Risk Based capital of 16.34%. Clearly, the CPP investment downstreamed to the Bank helped support our residential mortgage lending activities and our corresponding mortgage loans held for sale. Without the CPP investment, the Bank would not have had sufficient capital to support expanded residential mortgage lending or SBA lending, two important lending activities that foster economic recovery.

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What actions were you able to take that you may not have taken without the capital infusion of CPP/CDCI funds?

The CPP investment allowed the Bank to further expand both residential mortgage lending and SBA lending. The CPP investment supported the continued funding of the Bank's ALLL and helped absorb other asset quality expenses, including loan collection costs and loss on the sale of foreclosed properties. There is a direct correlation between the Bank's capital level, the expansion of mortgage banking and Bank profitability.

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Please describe any other actions that you were able to undertake with the capital infusion of CPP/CDCI funds.